

# State and Local Government Public Employee Pensions

Florida House of Representatives  
Pre-Session Information Session  
January 20, 2011

# Florida Retirement System (FRS) and Non-FRS Retirement Systems

- All state and county employees in regularly established positions must be members of the Florida Retirement System (FRS). Cities and special districts can choose to participate
- Cities and special districts not participating in “FRS” have the option of creating their own system. Under the local option, there are three types of plans:
  - General employee plans
  - Firefighter plans
  - Police officer plans

# Focus of Proposed Changes: FRS and Firefighter and Police Officer Local Plans

- Proposed changes primarily focus on:
  - The “FRS” system, and
  - The non-“FRS” firefighter and police officer local plans and not the general employee plans.
- The Legislature has left most of the details of general employee local non-FRS plans to the cities and special districts and has not authorized a funding source to assist local governments in paying for the plans.

# Florida Retirement System

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# Florida Retirement System

## *“At a Glance”*

### Florida Retirement System (FRS):

- Annual employer contributions **\$3.4 billion**
- Active participants **655,367**
- Annuitants **304,337**
- Funding ratio as of July 1, 2010 **87.9 percent**
- Market value of assets as of July 1, 2010 **\$109.5 billion**
- Projected annual contribution for state employees **\$667.9 million**

### Topics of Discussion:

- Membership
- FRS plan options
- Costs, funding and impact to the budget
- Benefits
- Deferred Retirement Option Program

# Florida Retirement System

- Established in 1970
- Provides retirement, disability and death benefits
- Funded through employer contributions and investment earnings
- Managed by the Department of Management Services and the State Board of Administration
- 655,367 active participants as of June 2010

# Membership

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Florida Retirement System

# Participants

## Required:

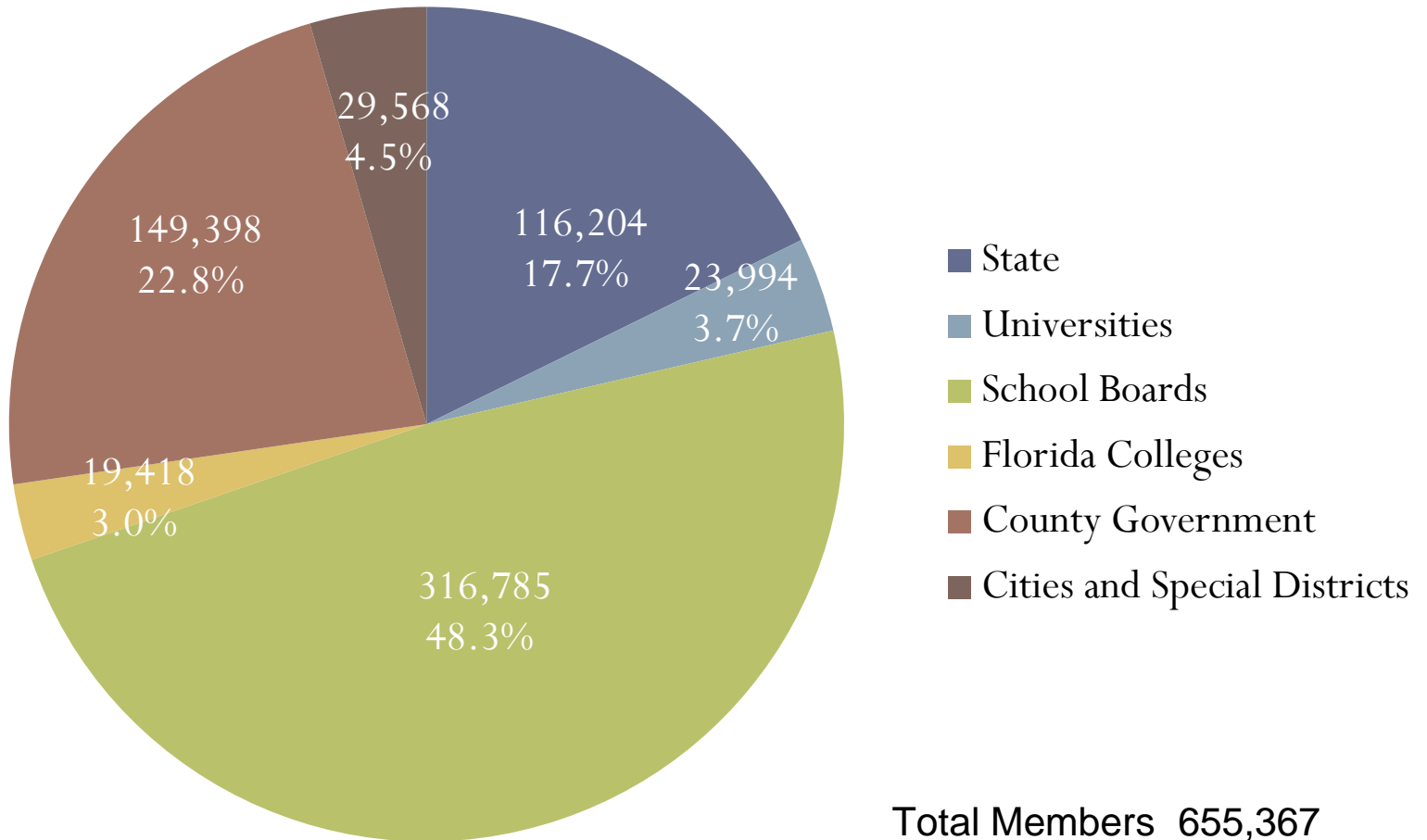
- State
- School boards
- County governments
- Universities
- Florida colleges (formerly community colleges)

## Optional:

- Municipalities
- Special districts



# Active Membership by Employer



# Membership Plans

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# Two Plan Options

- DEFINED CONTRIBUTION PLAN

- Participants are guaranteed a certain level of contributions from their employers
- Participants select how contributions will be invested
- Participants bear the risk of their investment decisions
- 97,782 (14.9%) active members

- DEFINED BENEFIT PLAN

- Retirement benefit is a guaranteed formula-based payment that is funded by employer contributions
- Employer bears the investment risk
- 557,585 (85.1% ) active members

# Defined Contribution (DC) Plan

- Established by the 2000 Legislature to take effect in 2002
- State Board of Administration (SBA) is primarily responsible for administering the DC Plan
  - Comprised of the Governor as chair, Chief Financial Officer and Attorney General – commonly referred to as “Trustees”
  - Trustees delegate operational responsibilities to an Executive Director

# DC Plan (cont.)

- SBA develops policy and procedures for selecting, evaluating and monitoring the performance of approved providers and investment products to which employees may direct retirement contributions
  - Investment options and products are considered based upon criteria established in law
- All benefits payable under DC Plan are paid to the individual participant's account
- Participants may rollover monies to and from qualified retirement plans

# Defined Benefit (DB) Plan

- Division of Retirement in Department of Management Services administers DB Plan
- SBA invests DB Plan assets
  - Must follow fiduciary standards of care, subject to certain limitations, which are established in law
  - Current law provides a “legal list” of types of investments and percentages of the total fund that may be invested in each investment type
- Six-member Investment Advisory Council, appointed by the Trustees, provides independent oversight of the general objectives, policies and strategies for DB Plan investments

# Legal Requirements

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# Actuarial Requirements

FLORIDA CONSTITUTION prohibits the state from providing any increased retirement benefits unless the state has made or concurrently makes provision for the funding of those benefits on a sound actuarial basis (Art. X, s. 14, Fla. Const.)

FLORIDA STATUTES implement the constitutional provision

- “Florida Protection of Public Employee Retirement Benefits Act” establishes minimum standards for the operation and funding of public employee retirement systems and plans in the State of Florida (ss. 112.60 – 112.67, F.S.)
- Section 121.031(3), F.S., requires an annual actuarial study of the FRS



# Contractual Obligations

FLORIDA CONSTITUTION prohibits the passage of any law impairing the obligation of contracts (Art. I, s. 10, Fla. Const.)

FLORIDA STATUTES provide that the rights of members of the Florida Retirement System are of a contractual nature, entered into between the member and the state, and such rights are legally enforceable as valid contract rights and may not be abridged in any way [s. 121.011(3)(d), F.S.]

# Funding Methodology

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# Definitions

NORMAL COST is the amount needed to fund future benefits allocated to the valuation year

AMORTIZATION OF THE UNFUNDED ACTUARIAL LIABILITY (UAL) is the annual cost to eliminate the UAL within the amortization period

# Funding Methodology

- Actuarial valuation is performed annually on DB Plan
  - Determines the actuarial funding status of DB plan as well as proposes employer contribution rates sufficient to fund the normal cost of the plan and amortization of the UAL, if any
- Blended Rate Study is performed subsequent to the actuarial valuation which 'blends' the Normal Cost rates with the DC plan deposit rates to establish a uniform employer contribution rate

# Funding Methodology (cont.)

- Rates are established annually in a conforming bill
- *If* the legislatively adopted rates change from the previous year, the Legislature provides an appropriation for state entities (positive or negative) in the Administered Funds section of the General Appropriations Act
- Appropriations made in Administered Funds are allocated to state agencies by the Executive Office of the Governor by adjusting the Salary and Benefits Appropriation Category through the budget amendment process
- Legislature typically adjusts appropriations to account for changes in rates for the following entities as well:
  - Universities
  - Florida colleges
  - School boards (FEFP)

# Actuarial Funding, DB Plan

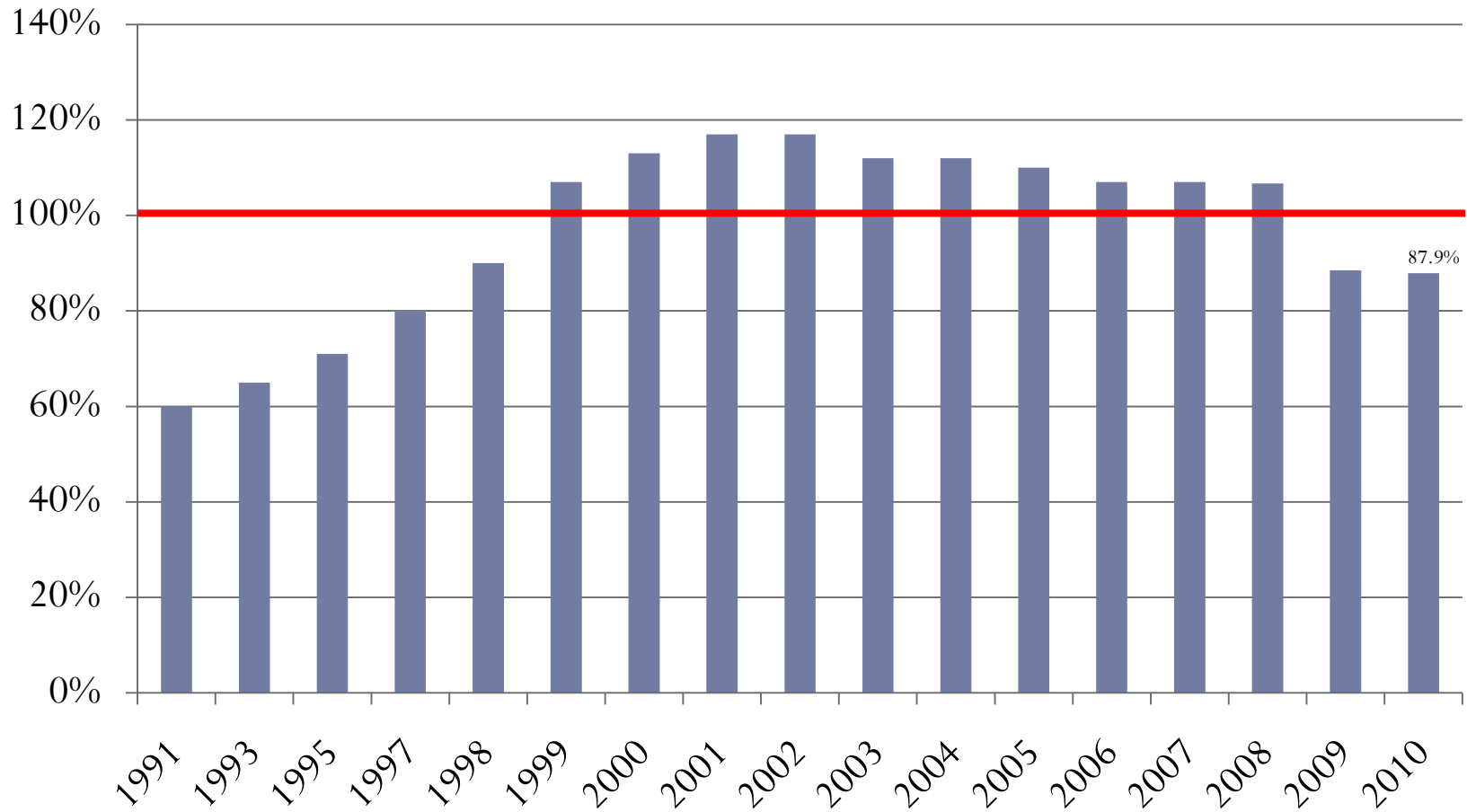
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# Actuarial Funding Status

- As of July 1, 2010, DB Plan had an actuarial funding level of 87.9 percent
  - UAL of \$16.7 billion
  - Actuarial deficit is due to market declines in 2008 and 2009 and plan experience
- Historically, DB Plan has been rated one of the top three funded public retirement plans in the U.S.
  - As all retirement funds were affected similarly, Florida is expected to maintain a high ranking
- Industry experts consider an actuarial funding level of over 80.0 percent to be a well funded program
  - Most recent data regarding public pension plan funding indicates that over half of the states providing data have funding ratios below 80.0 percent

# Historical Actuarial Funding Ratio





# Employer Contributions and Funding Needs

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# Fiscal Year 2011-12

## Projected Contributions, by Employer Group, Assuming Funding at Actuarial Normal Cost

Employer	Estimated Contribution Current Statutory Rates FY 2010-11	Projected Additional Funding Needs FY 2011-12	Projected Contribution Normal Blended Rates FY 2011-2012
State	\$659.4 million	<b>\$8.6 million*</b>	\$667.9 million
School boards	\$1,332.9 million	<b>\$39.7 million*</b>	\$1,372.6 million
Universities	\$120.9 million	<b>\$4.0 million*</b>	\$124.9 million
Florida colleges	\$92.6 million	<b>\$2.5 million*</b>	\$95.1 million
Counties	\$1,183.8 million	\$18.2 million	\$1,202.0 million
Participating cities/others	\$193.7 million	\$2.8 million	\$196.6 million
Total	\$3,583.2 million	\$54.8 million	\$3,659.1 million

\* The State typically provides the additional funding needs for these entities. For FY 2011-2012, the total funding need for the State is \$50.7 million in GR and \$4.1 million in TE.

# Fiscal Year 2011-12

## Actuarially determined Annual Amortization of the UAL

Employer <sup>1</sup>	General Revenue	Trust Funds
State	\$101.7 million	\$93.2 million
School boards	\$308.5 million	
Universities	\$59.8 million	
Florida colleges	\$26.4 million	
Totals	\$496.3 million	\$93.2 million

<sup>1</sup> The state typically funds employer contribution rate changes for these employer groups.

# Class Structure and Benefits

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# Class Structure

- REGULAR CLASS - Members who do not qualify for membership in other classes within the FRS
- SPECIAL RISK CLASS - Law enforcement officers, firefighters, correctional officers, correctional probation officers, paramedics, EMTs, certain professional health care workers within Department of Corrections and Department of Children and Family Services and certain forensic employees
- SPECIAL RISK ADMINISTRATIVE SUPPORT CLASS – Former special risk class members who are transferred or reassigned to an administrative support position in certain circumstances
- ELECTED OFFICERS' CLASS - Members who hold specified elective offices in either state or local government
- SENIOR MANAGEMENT SERVICE CLASS - Generally, high level executive and legal staff or as specifically provided in law

# Employer Contribution Rates

Membership Class	Normal Cost Rates Defined Benefit Plan FY 2011-12	Defined Contribution Plan Rates	Employer Contribution 'Blended Rates' FY 2011-12
Regular Class	9.84%	9.25%	9.76%
Special Risk Class	22.34%	21.33%	22.20%
Senior Management Service Class	11.84%	11.21%	11.70
Elected Officers' Class:			
Leg-Atty-Cabinet	14.74%	13.81%	14.48%
Judges	19.42%	19.63%	19.43%
County/City	16.79%	16.61%	16.73%

# DB Plan Benefit Summary

- Benefit Calculation:
  - Years of Service X Accrual Rate X Average Final Compensation (AFC)
  - 3 percent annual Cost of Living Adjustment is provided to retirees

Example\*:

Class	Years of Service	Accrual Rate	Percentage Earned	AFC	Annual Benefit
Regular Class	30	1.60%	48.0%	40,000	19,000
Special Risk	25	3.00%	75.0%	40,000	30,000
Senior Management	30	2.00%	60.0%	40,000	24,000
Elected Officer - Judge	30	3.33%	100.0%	40,000	40,000
Elected Officer - Others	30	3.00%	90.0%	40,000	36,000

\* Table reflects benefit calculated at Normal Retirement

# Disability Benefits (minimum)

- Special Risk:
  - In-line-of-duty: 65 percent of AFC
  - Regular Disability: 25 percent of AFC
- Regular Class/Other Classes:
  - In-line-of-duty: 42 percent of AFC
  - Regular Disability: 25 percent of AFC



# Deferred Retirement Option Program (DROP)

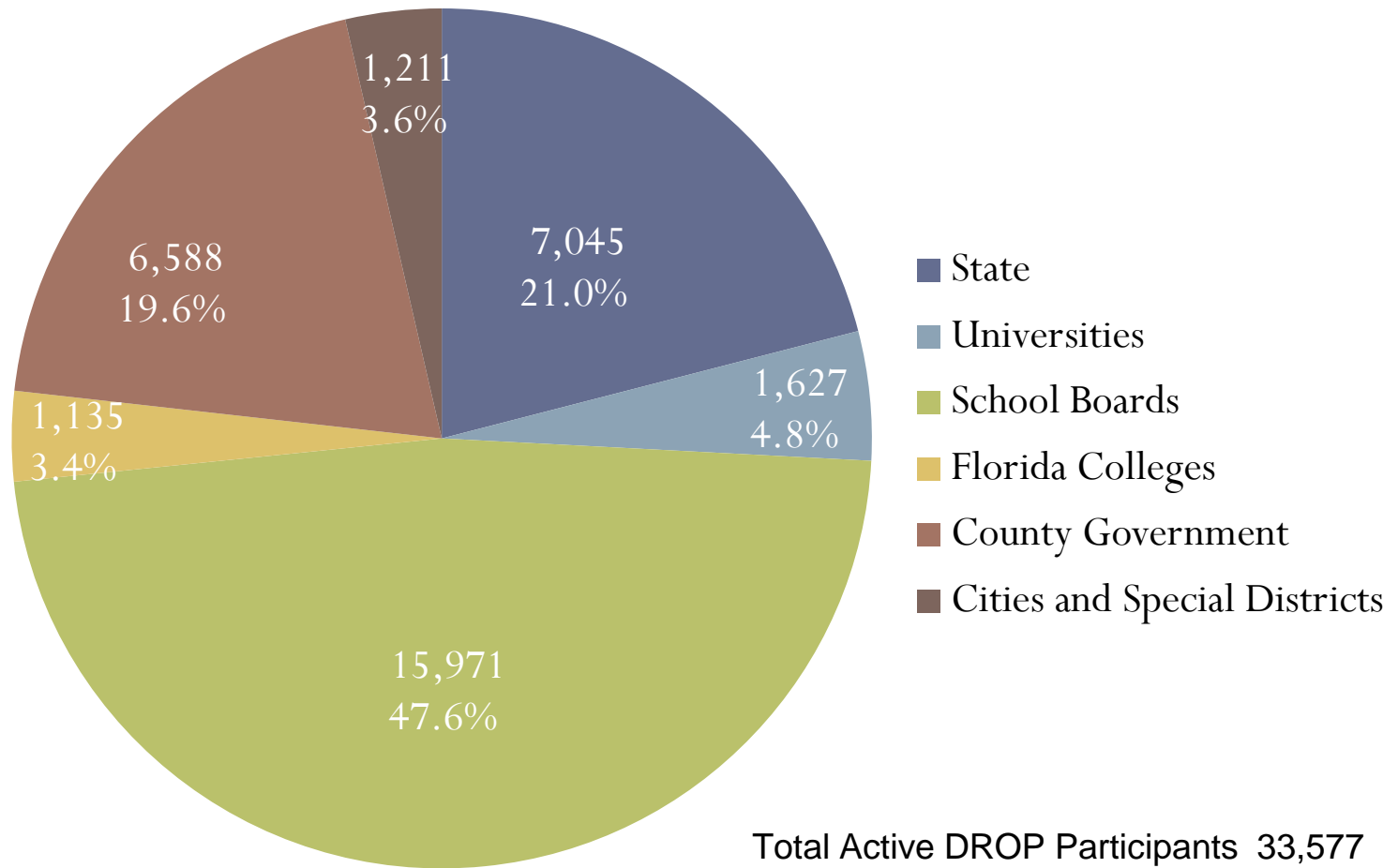
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# DROP

- Established in 1998
- Allows members to retire and continue working for up to:
  - 5 Years: Most members
  - 8 Years: K-12 Instructional Personnel
- Pension benefits accumulate in the FRS Trust Fund
  - Earn 6.5 percent interest, annually
  - Earn 3.0 percent Cost of Living Adjustment, annually
- Members must terminate FRS employment after completing DROP

# Active DROP Participants by Employer



# Legislative Changes

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# Effective July 1, 2010

- Members who retire or exit DROP:
  - Cannot be reemployed by an FRS employer within 6 months
  - No longer eligible to earn additional pension benefits
- DROP accounts for Elected Officials no longer earn interest when DROP participation ends, even if the term of office extends beyond the expiration date

# Local Government Non-FRS Plans

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# Local Government Options

- Plan Options
  - Florida Retirement System
  - Locally Based Plan, or
  - No Plan
- Participation in FRS
  - 182 Municipalities
  - 231 Special Districts
- Participation in Non-FRS Plans
  - 206 Municipalities and 46 Special Districts
  - 170 General Employee Plans
  - 351 Police & Fire Plans

# Types of Local Pension Plans

- General Employee Pension Plans
- Firefighters' Pension Plans
  - Chapter law
  - Local law
- Police Officers' Pension Plans
  - Chapter law
  - Local law



# Statistics Relating to Municipal and Special District Plans (2009 Data)

- Active and Retired Persons Participating
  - 120,500 General Employees
  - 51,575 Police & Firefighters
- Market Value Pension Fund Balances
  - \$10 Billion Total for General Employees
  - \$13 Billion Total for Police & Firefighters

# General Employee Pension Plans

- No statewide minimum benefits or standards
- Local government general employee pension plans must meet the requirements of Chapter 112, Part VII, F.S., i.e.,
  - reporting;
  - actuarial impact statements; and
  - administration of funds
- Reports are reviewed by the Division of Retirement

# Police Officers' & Firefighters' Pension Plans Chapters 175 and 185, F.S.

- Provide Legislative Declaration
- Provide uniform retirement system
- Protect pension funds through standards for management, administration, operation and funding
- Establish minimum benefits and standard

# Police Officers' & Firefighters' Pension Plans: Historical Perspective

## 1939

- Municipal Firefighters' Pension Fund created by Legislature
  - Provided for creation of fund, specified funding sources, authorized insurance premium tax, created board, defined criteria & benefits for retirement
  - Cities with existing pension funds also authorized to use premium tax

## 1953

- Municipal Police Officers' Pension Fund created by Legislature
  - Similar to Firefighters' fund, but more reporting requirements involving the state; and benefit criteria varied
  - Certification of compliance required to access premium taxes
- Firefighters' Pension Fund amended to also require certification of compliance to access premium taxes

# Police Officers' & Firefighters' Pension Plans: Historical Perspective

In response to concerns that plans were not actuarially sound and that state monies were not being used properly:

1959

- Police Officers' Retirement Fund
  - Significant amendments provide more options and reporting requirements
  - Must meet minimum standards to continue receiving tax
    - Two sets of standards established
    - Local plans created by ordinance or special act given less stringent minimum standards than funds established strictly under ch. 185, F.S.
  - Cities given until 1964 to comply with minimum funding level to fund actuarial deficiencies in order to receive state premium taxes

1963

- Firefighters' Pension Plan
  - Significant changes made to more closely match Police Fund
  - Must meet minimum standards to continue receiving tax
    - Two sets of standards established
    - Local plans created by ordinance or special act given less stringent minimum standards than funds established strictly under ch. 175, F.S.
- Cities given until 1968 to comply with minimum funding level to fund actuarial deficiencies in order to receive state premium taxes

# Police Officers' & Firefighters' Pension Plans: Historical Perspective

## 1986

- Minimum benefits were raised for local law plans above the 1959 and 1963 levels
- Minimum benefits for firefighters for chapter based plans also raised

## 1999

- Minimum standards for local law plans raised to same standard as chapter based plans and may not be diminished by local charter, ordinance, or resolution or by special act of the Legislature
- Premium tax funds to be used to bring plans up to standards or to provide extra benefits beyond those provided to general employees

## 2004

- Use of additional (post 1997 base year) premium tax linked to extra benefits beyond those provided to police or firefighters in 1999

# Police Officers' & Firefighters' Pension Plans – Chapters 175 and 185, F.S.

Current law provides:

- Requirements and Minimum Benefits and Standards
- Funding Requirements
- Insurance Premium Excise Tax
- Other Provisions

# Requirements and Minimum Benefits and Standards

- Reporting requirements
- Board of Trustees members, powers & duties
- Management of pension trust funds
- Requirements for retirement benefits
- Municipal or fire control district board approval of plans



# Funding

- Insurance Premium Excise Tax
  - 1.85% on property insurance premiums (firefighters)
  - 0.85% on casualty insurance (police officers)
- Member contributions
  - no less than one-half of 1 percent of salary, and not more than 5% of salary, unless increased by consent for additional benefits
- Municipality or special district contribution
  - equal to the amount required to fund any actuarial deficiency
- Other sources to include fines, interest and gifts

# Insurance Premium Excise Tax

- Improve benefits provided to firefighters and police officers
- Not a tax increase
  - Credit is given to payor for state tax obligation
  - State revenue is reduced accordingly
- Distribution in 2009 = \$131 million

# Other Provisions relating to Firefighters' & Police Officers' Pensions

- Actuarial deficits are not state obligation
- Oversight
  - Governing boards are provided with information on actuarial impacts prior to approving changes to plan
  - Division of Retirement is responsible for:
    - Oversight and monitoring for actuarial soundness of plans
    - Compliance with statute
    - Enforcement

# Municipal and Special District Pension Plans

- Local pension plans and the benefits provided are at the option of, and are the responsibility of, local governments
- If locals elect to use insurance premium tax funds for firefighter and police pensions, minimum state standards are provided
- All pension plans are reviewed for actuarial soundness

# Questions?